

LHN Ltd (LHN SP)

Expanding co-living capacity

Upper Bukit Timah tender win; maintain BUY

LHN was awarded the former Bukit Timah Fire Station site to develop a mixed-use project with 60 serviced apartment units on levels 2 & 3, and a ground floor commercial F&B and retail operation. Refurbishment capex is estimated at around SGD7m. Meanwhile, LHN is also teaming up with Ching Chiat Kwong (CEO of SGX-listed Oxley Holdings) and his son in a 50:50% JV partnership to acquire Wilmer Place. LHN will invest up to SGD24m for its share of the Wilmer venture. We leave unchanged our forecasts and TP of SGD0.45 (pegged at 8x FY24E P/E) for now. BUY.

Co-living within a community node

The 0.86-ha Upper Bukit Timah site will be developed into a mixed-use development, featuring co-living and open space for the public, which serves as a key community node for both the Rail Corridor and the surrounding precinct. Expected to open in 1H25, this latest project comes after two successful mixed-use projects with ground level F&B offerings (Coliwoo 450 SR & Coliwoo Balestier). In our view, the Bukit Timah project should capitalize on LHN's expertise and synergy across its business units in co-living, commercial and facility management.

New acquisition with prominent JV partner

LHN is setting up a 50:50% JV company with local real estate businessman Mr. Ching Chiat Kwong and his son. We understand the JV company is looking to acquire Wilmer Place located at 50 Armenian Street next to City Hall MRT. The office building could remain as a commercial building or be re-purposed for co-living business. With a land area of 710.7sqm, the leasehold building has a tenure of 99 years from 1 May 1947. This should enable the group to expand its co-living offerings under its space optimization business segment.

Healthy project pipeline

LHN has 6 upcoming projects (see overleaf), including the Ministry of Health (MOH) hostel for 700 nursing professionals. LHN is offering commercial paper of up to SGD5m, at a 6% interest rate, to fund the capex for its MOH contracts and other general working purposes. MOH has also proposed 11 additional sites (including one brownfield and 10 greenfield sites). Other re-rating catalysts are successful wins of more MOH/SLA tenders, as well as further capital recycling initiatives.

FYE Sep (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	112	94	117	132	152
EBITDA	46	38	48	49	56
Core net profit	19	19	23	25	27
Core FDEPS (cts)	4.8	4.8	5.6	6.1	6.5
Core FDEPS growth(%)	(58.8)	(1.1)	17.9	8.5	7.3
Net DPS (cts)	1.8	3.0	2.0	2.0	2.0
Core FD P/E (x)	5.7	7.0	6.1	5.6	5.2
P/BV (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	9.0	5.9	5.9	6.0
ROAE (%)	27.6	19.0	10.6	12.3	12.2
ROAA (%)	4.4	3.8	4.1	4.5	4.8
EV/EBITDA (x)	2.5	7.0	5.4	5.2	4.7
Net gearing (%) (incl perps)	56.4	58.1	52.9	52.7	53.5
Consensus net profit	-	-	24	27	27
MIBG vs. Consensus (%)	-	-	(3.1)	0.1	0.6

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BUY

Share Price	SGD 0.34
12m Price Target	SGD 0.45 (+32%)
Previous Price Target	SGD 0.45

Company Description

LHN Ltd operates in four businesses, namely space optimization, property development, facilities management and energy.

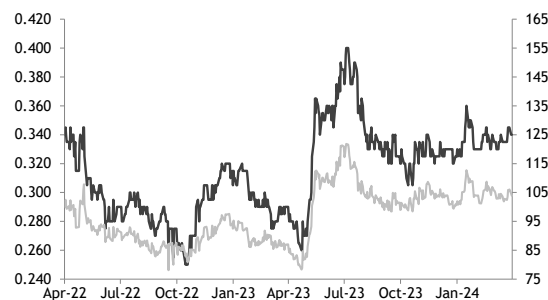
Statistics

52w high/low (SGD)	0.40/0.26
3m avg turnover (USDm)	0.1
Free float (%)	42.9
Issued shares (m)	409
Market capitalisation	SGD139.0M
	USD103M

Major shareholders:

LIM FAMILY /LHN/	54.0%
LIM BEE CHOO	1.0%
IFast Financial Pte Ltd. (Investment Man)	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	5	17
Relative to index (%)	(3)	3	19

Source: FactSet

Other companies mentioned in this report

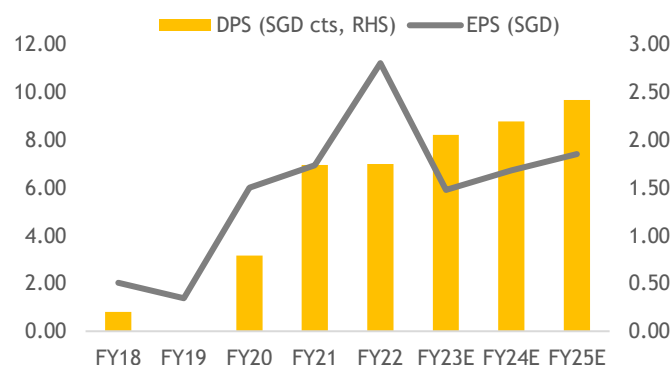
Oxley Holding (OHL SP, CP SGD0.09, Not rated)

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Value Proposition

- LHN’s co-living brand, Coliwoo, is the largest operator in Singapore by number of keys.
- After rapid expansion since 2019, Coliwoo is operating at 13 locations and preparing to launch three more assets.
- New dividend policy of a minimum 30% payout ratio.
- FY24E P/E of less than 7x is undemanding compared to global hospitality peers.
- Potential divestments are supported by a portfolio of assets that are in the money, and LHN is tilting towards an asset-light strategy.

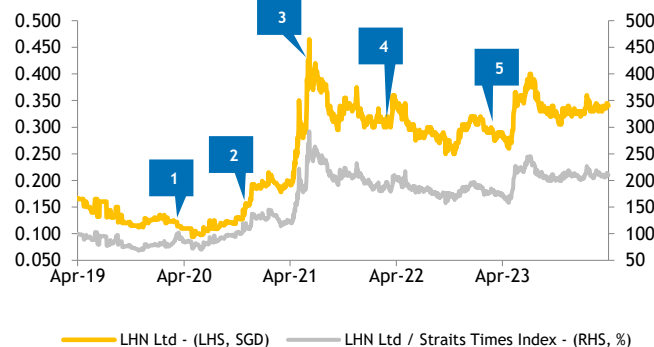
EPS and DPS trend



Source: Company

Price Drivers

Historical share price trend



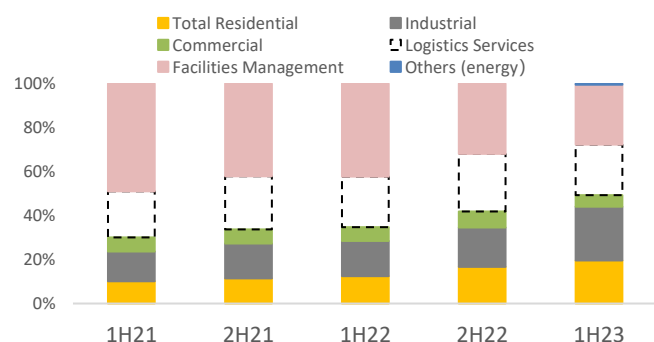
Source: Company, Maybank IBG Research

1. 2Q20 results hit by onset of Covid-19 pandemic.
2. Co-living gained popularity among expatriates and students after gradual easing of pandemic restrictions.
3. Completed acquisitions of Amber, 115 Geylang and Beach Road Properties as well as announced acquisition of Tuas Properties. Placement of 6.5m shares amounting to net sales proceeds of SGD2.1m, which was intended for general working capital.
4. Listing of LHN Logistics Limited on 29 April 2022 and decreased revenue of SGD0.3m from commercial properties due to expiry of 3 master leases.
5. Received offer for sale of LHN Logistics and launch of Coliwoo Orchard @ 2 mount Elizabeth Link, which achieved 75% occupancy in 1H23.

Financial Metrics

- Revenue growth in 1H23 boosted by co-living business in Singapore (+27%). We expect further growth, led by co-living as more assets in the pipeline become operational.
- Contribution from space optimisation business grew steadily, making up 50% of LHN’s 1H23 revenue.
- Gearing is likely to remain stable as LHN intends to expand via JVs and an asset-light strategy.

Revenue contribution by segment



Source: Company

Swing Factors

Upside

- Better than expected rental fees and occupancy
- Prolonged lack of supply of new hotels / co-living rooms in Coliwoo’s key locations.
- Sports events and entertainment create surge in ad hoc demand from travellers.
- Potential disposal of business segment.
- Value-unlocking divestments that lead to special dividend for shareholders.

Downside

- Surge in supply of key locations.
- Failure to renew lease for master-leased assets.
- Elevated interest rates until next re-financing in FY24.

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Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³	NA

Business Model & Industry Issues

- As a real estate management services company, LHN strives to be a sustainable player in the market and ensures it does its part on the grand scale of reducing its contribution to climate change.
- On a peer-to-peer basis, currently LHN sits comfortably above its peers regarding its efforts to reduce climate change and provide sustainable opportunities to its employees.
- The biggest threat to LHN exists in the form of rising property prices (average 4.9% YoY) and a competitive industry due to the nature of its co-living segment. This may potentially mean a higher cost of acquisition and LHN would require consistently good occupancy levels to sustain its growth. On the contrary, LHN's capital recycling model and revaluation strategies can help reduce their gearing.

For space optimisation to see continued growth, there may be increased consumption of energy and water, which may impact its long-term ESG goals of reducing utilities consumption. However, their efforts in sustainable practices should eventually offset this challenge.

Material E issues

- Two of its managed properties - 1557 Keppel Road and 202 Kallang Bahru - were BCA Green Mark certified.
- Installed water saving taps for 100% of its properties managed. However, more needs to be done to achieve its water consumption intensity target of a 5% reduction.
- 7% of energy consumption sourced through solar panel installations at several of its properties reaching 2,468kWp system capacity.
- City Developments Limited (CDL) issued a green bond in 2017 that raised SGD100m for promoting sustainability in its projects. LHN may also consider doing so after carefully evaluating the viability of such projects.
- IOT Deployment in 2021 to better monitor energy consumption at managed properties by targeting increasing energy consumption.

Material S issues

- On average, each employee received approximately 15.9 training hours in FY22, as compared to 6.1 hours in FY21, resulting in a 205% increase, due to the increase in training programmes conducted for all employees.
- Gender diversity is fairly high with a 58:42 ratio in FY22, and 40% represented in senior management, but diversity here can be improved, moving forward LHN plans to step up these figures.
- Consistent satisfaction scores exceeding target of 70% over the past three years.

Key G metrics and issues

- The board currently has 5 directors, including the executive chairman and Group Managing Director. The remaining 3 are independent non-executive directors.
- The remuneration and audit committees are chaired by independent directors.
- Executive Chairman Mr Kelvin Lim is the brother of the Group Managing Director Ms Jess Lim. They hold 54.04% and 0.98% stakes in the company, respectively.
- IFast Financial Pte Ltd. (Investment Management) owns about a 0.6412% stake in the company.
- There were no cases of non-compliance with all applicable laws and regulations concerning corruption in its operations in Singapore.
- A total of 337 employee leaving the company is due to the end of several contracts from its dormitory business. This is compensated by its new hire at 329 employees.
- LHN has a code of corporate governance that includes Anti-Corruption, Anti-Fraud and whistle-blowing policies in place that adhere to the local government's laws, regulations and has helped it generate 0 incidents of corruption.
- In the past 6 years, LHN Group has not received any substantiated complaints or identified leaks, thefts or losses of customer data, and has displayed a good cybersecurity track record and framework, according to the company.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

New projects pipeline

Fig 1: Upcoming Coliwoo projects

Upcoming pipeline	Locale	Year of acquisition / lease renewal	Expected operational date	Ownership	No. of keys
48 & 50 Arab Street	Bugis/Arab st	FY22-23	2Q 2024	Owned	26
286 & 288 River Valley Rd	River Valley	FY23	4Q 2024	Owned	39
99 Rangoon road	Farrer Park	FY23	2H 2024	Owned	32
GSM Building	Bugis/Rocher	FY24	1H 2025	Owned	187
Two MOH hostels	Ulu Pandan Rd / Boundary Close	FY24	2H 2024	Leased	350
Bukit Timah Fire Station	Bukit Timah	FY24	1H 2025	Leased	62

Source: Company, Maybank IBG Research

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	3.3	6.1	5.2	5.2
Core P/E (x)	5.7	6.7	5.8	5.3	4.9
Core FD P/E (x)	5.7	7.0	6.1	5.6	5.2
P/BV (x)	nm	0.6	0.6	0.6	0.6
P/NTA (x)	nm	0.6	0.6	0.6	0.6
Net dividend yield (%)	6.4	9.0	5.9	5.9	6.0
FCF yield (%)	0.0	25.8	22.4	6.9	27.2
EV/EBITDA (x)	2.5	7.0	5.4	5.2	4.7
EV/EBIT (x)	4.0	7.4	7.4	6.6	5.6

INCOME STATEMENT (SGD m)

Revenue	111.8	93.6	116.9	132.4	151.8
EBITDA	46.4	38.1	47.7	49.3	55.6
Depreciation	(20.5)	(20.1)	(12.8)	(10.4)	(9.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	29.0	36.1	34.9	38.9	46.6
Net interest income / (exp)	(4.9)	(8.9)	(8.9)	(8.4)	(8.1)
Associates & JV	16.5	1.7	1.8	1.8	1.8
Exceptionals	0.0	21.3	0.0	0.0	0.0
Other pretax income	12.3	(6.0)	0.0	1.0	0.0
Pretax profit	52.8	44.3	27.7	33.2	40.3
Income tax	(5.5)	(4.1)	(3.6)	(5.0)	(5.0)
Minorities	(1.7)	(2.0)	(1.2)	(1.3)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	45.8	38.2	23.0	26.8	26.8
Core net profit	19.0	19.5	23.0	24.9	26.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	39.7	41.6	46.2	45.0	43.9
Accounts receivable	42.2	32.2	30.2	28.4	26.7
Inventory	0.1	29.0	29.0	29.0	29.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	48.2	34.9	27.6	20.4	13.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	36.2	27.6	27.9	28.4	29.3
Other assets	302.3	388.9	392.9	404.9	421.1
Total assets	468.9	554.1	553.8	556.0	563.3
ST interest bearing debt	19.3	18.8	17.9	17.0	16.2
Accounts payable	37.1	42.2	44.3	46.5	48.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	128.9	149.5	144.5	143.7	145.9
Other liabilities	91.0	126.0	128.0	129.0	131.0
Total Liabilities	276.7	336.0	334.2	336.5	342.2
Shareholders Equity	185.9	216.2	217.7	217.7	219.2
Minority Interest	6.3	1.9	1.9	1.9	1.9
Total shareholder equity	192.2	218.0	219.6	219.6	221.1
Total liabilities and equity	468.9	554.1	553.8	556.0	563.3

CASH FLOW (SGD m)

Pretax profit	52.8	44.3	27.7	33.2	40.3
Depreciation & amortisation	20.5	20.1	12.8	10.4	9.0
Adj net interest (income)/exp	3.4	7.2	8.9	8.4	8.1
Change in working capital	(1.4)	13.4	1.9	4.7	4.7
Cash taxes paid	(5.2)	(4.1)	(3.6)	(5.0)	(5.0)
Other operating cash flow	(29.3)	(1.3)	5.9	(18.1)	10.2
Cash flow from operations	41.0	54.2	50.2	28.7	55.1
Capex	(7.8)	(18.8)	(19.0)	(19.2)	(17.3)
Free cash flow	33.2	35.4	31.2	9.5	37.8
Dividends paid	(7.9)	(8.6)	(8.2)	(8.2)	(8.3)
Equity raised / (purchased)	3.6	0.0	0.0	0.0	0.0
Change in Debt	7.2	(2.0)	(3.7)	(18.6)	(13.5)
Other invest/financing cash flow	(33.9)	(7.7)	(9.6)	25.7	(8.7)
Effect of exch rate changes	0.0	(0.2)	0.0	0.0	0.0
Net cash flow	2.2	16.9	9.7	8.4	7.3

FYE 30 Sep	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.6)	(16.2)	24.9	13.2	14.7
EBITDA growth	(24.0)	(17.8)	25.1	3.3	12.7
EBIT growth	(38.4)	24.6	(3.4)	11.3	19.9
Pretax growth	54.1	(16.1)	(37.4)	19.7	21.3
Reported net profit growth	63.3	(16.6)	(39.9)	16.8	(0.3)
Core net profit growth	na	2.6	17.9	8.5	7.3
Profitability ratios (%)					
EBITDA margin	41.5	40.7	40.8	37.2	36.6
EBIT margin	25.9	38.6	29.9	29.3	30.7
Pretax profit margin	47.2	47.3	23.7	25.1	26.5
Payout ratio	nm	32.1	35.7	30.7	31.0
DuPont analysis					
Net profit margin (%)	41.0	40.8	19.6	20.3	17.6
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.3
Assets/Equity (x)	2.5	2.6	2.5	2.6	2.6
ROAE (%)	27.6	19.0	10.6	12.3	12.2
ROAA (%)	4.4	3.8	4.1	4.5	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.6
Net gearing (%) (incl perps)	56.4	58.1	52.9	52.7	53.5
Net gearing (%) (excl. perps)	56.4	58.1	52.9	52.7	53.5
Net interest cover (x)	5.9	4.1	3.9	4.6	5.7
Debt/EBITDA (x)	3.2	4.4	3.4	3.3	2.9
Capex/revenue (%)	7.0	20.1	16.3	14.5	11.4
Net debt/ (net cash)	108.4	126.7	116.1	115.7	118.2

Source: Company; Maybank IBG Research

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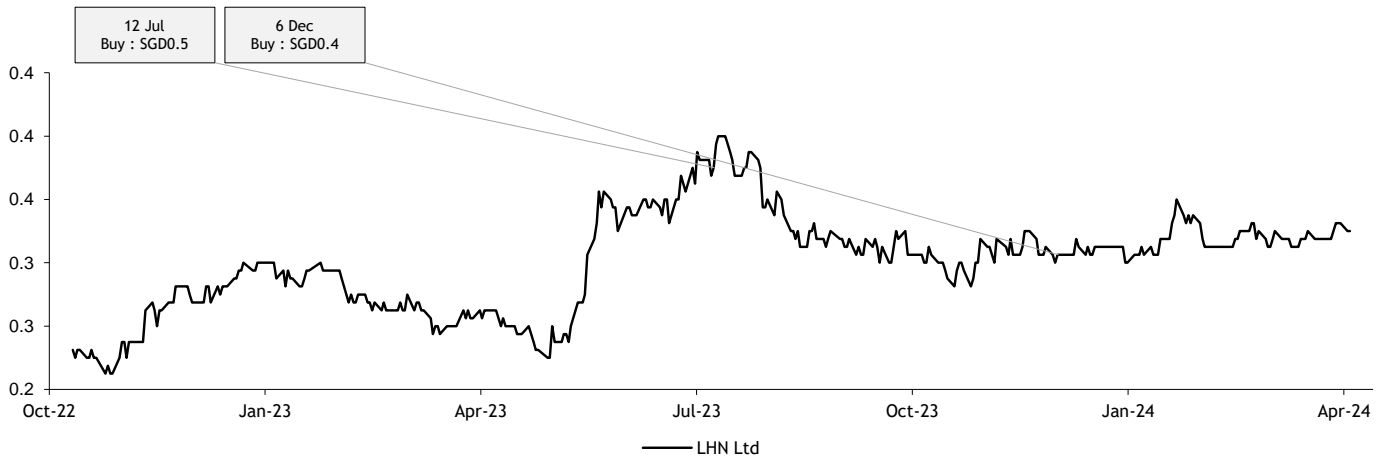
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